

Message Text

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15/45

ACTION AID-31

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 680

INFO AMEMBASSY NEW DELHI

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C O R R E C T E D C O P Y (PARAS. 5. & 6.)

EO 11652: N/A

TAGS: EAID, CE

SUBJ: MOV NEGOTIATIONS: THIRD MEETING, MARCH 19, 1974

DELHI PASS AID REGIONAL LEGAL ADVISER O'DONNELL

REF: A) STATE 52639, B) STATE 11592, C) COLOMBO 59,

D) COLOMBO 345, E) COLOMBO 379

1. THIRD MEETING IN CURRENT SERIES WAS HELD IN FINANCE
SECRETARY COOREY'S OFFICE MARCH 19, 1974, WITH SAME EMBASSY
AND GSL ATTENDANCE AS IN EARLIER MEETINGS.

2. SECRETARY COOREY OPENED SESSION WITH EXPRESSION OF CONCERN
THAT BOTH SIDES POSITIONS REMAINED UNCHANGED, ADDING HE
WONDERED HOW WE COULD PROCEED. AMB RESPONDED THAT
PRIOR SESSIONS HAD BEEN USEFUL IN CLARIFYING AND INTERPRETING
RESPECTIVE POSITIONS OF TWO GOVERNMENTS.

3. AMB THEN ADDRESSED IN DETAIL POINTS RAISED IN GSL
NOTE PRESENTED AT MARCH 12 MEETING IN ACCORDANCE GUIDANCE
SET FORTH STATE 52639 (EXCLUSIVE OF FYI SECTIONS). HE
CONCLUDED BY SAYING THAT FROM HIS STATEMENTS IT COULD
READILY BE SEEN THAT USG IS UNABLE TO ACCEPT SOLUTION
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PROPOSED IN POINT 5 OF GSL NOTE, THAT IS, THAT RATE TO BE

AGREED UPON SHOULD BE OFFICIAL RATE.

4. VELAYUTHAM ASKED IN WHAT BASIC RESPECT PL 480 SALES PROCEEDS LOANS DENOMINATED IN RUPEES AND REPAYABLE IN RUPEES DIFFERED FROM SALES PROCEEDS LOANS DENOMINATED IN DOLLARS AND REPAYABLE IN RUPEES. IN FORMER CASE THERE WAS NO MOV CLAUSE DESPITE FACT GSL HAD OPTION TO REPAY DOLLAR EQUIVALENT OF RUPEES AT HIGHEST RATE IN EXISTENCE AT DATE OF REPAYMENT. IF GSL HAD ELECTED TO PAY IN DOLLARS AT HIGHEST RATE, THERE OBVIOUSLY WOULD BE REDUCTION IN ADMOUNT OF DOLLARS REPAID BECAUSE OF EFFECTIVE DVEVALUATION. HIS ARGUMENT WAS THAT SINCE LATER LOAN PERMITTED GSL TO USE REPAYMENT OPTION THAT REDUCED VALUE OF LOAN IN TERMSOF DOLLARS, WAS IT REALLY CORRECT TO SAY MOV CLAUSE IN EARLIER LOANS WAS INTENTIONAL?

5. AFTER FURTHER DISCUSSION OF POINTS IN GSL NOTE AND AMB'S REPLIES, COOREY MENTIONED THAT IN DECEEMBER 1969 GSL HAD CORRESPONDED WITH OFFICIAL IN GOVT OF PAKISTAN ON MOV ISSUE AND HAD BEEN ASSURED THAT GOP WAS REPAYING ITS LOANS FROM UNITED STATES AT OFFICIAL RATE DESPITE EXISTENCE OF BONUS VOUCHER SYSTEM SIMILAR TO FEEC SCHEME. STATEMENT, HE SAID, WAS CONFIRMED BY LETTER FROM MR RASHID, GOVERNOR OF CENTRAL BANK OF PAKISTAN, DATED DEC 1969. AMB AGREED TO ASK WASHINGTON ABOUT BASIS OF PAKISTANI STATEMENTS AND POSSIBLE EFFECT ON CURRENT DIDCUSSIONS.

6. COOREY, AS MEETING WAS CONCLUDING, ASKED IF REPEAT IF GSL CONCEDED CORRECTNESS OF USG POSITION ON BASIC MOV ISSUE, COULD SUBSEQUENT NEGOTIATIONS RESULT IN SETTLEMENT UNDER WHICH ACTUAL PAYMENTS WOULD BE MADE AT LEVEL NOT SIGNIFICANTLY HIGHER THAN AMOUNTS GSL WOULD HAVE HAD TO PAY AT OFFICIAL RATE. HE COULD UNDERSTAND PROBLEM OF PRECEDENT (VELAYUTHAM POINTED OUT GSL FOR ITS PART HAD NEVER REPAID ANY LOAN AT FEEC RATE), BUT ON OTHER HAND GSL WOULD BE VERY HARD HIT IF IT HAD TO REPAY AT TOP RATE. HE SUGGESTED THAT IF GSL COULD RECEIVE SUCH ASSURANCE, IT MIGHT SIMPLIFY MATTER OF CONCEDED ISSUE OF APPLICABILITY OF MOV CLAUSE. AMBASSADOR AGREED TO FORWARD HIS "INTERESTING"QUESTION TO WASHINGTON, BUT HE INDICATED THAT IN VIEW U.S. POSITION HE COULD NOT HOLD OUT ANY HOPE THAT NEGOTIATED RATE, IF PROPOSAL WERE ACCEPTED, WOULD BE CLOSE TO OFFICIAL RATE.
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7. COMMENT: PER PARA 7 STATE 011592, AMBASSADOR PROPOSES AT NEXT SESSION, WHICH WILL BE HELD ON TUESDAY, MARCH 26, AT 4:00 P.M., TO PUT FORWARD POSSIBILITY OF SETTLEMENT ON THREE ICA LOANS AT COMBINATIONS OF OFFICIAL AND FEEC RATES WHICH WOULD MAKE EFFECTIVE RATE CLOSE TO RS. 10 TO \$1.

8. IN ORDER MOVE AHEAD QUICKLY AND PLANNEGOTIATING TACTICS, WE

NEED BEFORE NEXT MEETING FIGURES PREVIOUSLY REQUESTED ON AMOUNTS DUE FROM DECEMBER 31, 1972 THROUGH MATURITY FOR EACH OF ICA LOANS, IN DOLLARS, RUPEES AT OFFICIAL RATE, AND RUPEES AT FEEC'S (COLOMBO 59 AND 379). CEYLON DESK OFFICER LEADER DID NOT HAVE REQUIRED MATERIALS WHEN HERE (STATE 039606), BUT WE TRUST FIGURES CAN NOW BE PROVIDED.

9. WE ALSO NEED ASAP FIGURES PREVIOUSLY REQUESTED CONCERNING ARREARAGES (REFS. C, D, AND E). IF AT ALL POSSIBLE, WE WOULD APPRECIATE HAVING THESE FIGURES ALSO BEFORE NEXT MEETING.

10. REQUEST COMMENTS AND GUIDANCE ON FOREGOING BY OPENING OF BUSINESS COLOMBO TIME MONDAY, MARCH 25.
VAN HOLLEN

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